

MCCOY MEMORIAL NURSING CENTER

BISHOPVILLE, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-MCY-J7**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 14, 1999

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with McCoy Memorial Nursing Center, for the contract periods beginning October 1, 1998 and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by McCoy Memorial Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and McCoy Memorial Nursing Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 14, 1999

The South Carolina Department of Health and Human Services has not received formal approval from the United States Health Care Financing Administration (HCFA) of Attachment 4.19D of the South Carolina State Plan under Title XIX (Medicaid) for the contract periods beginning October 1, 1998, as required by regulations of the United State Department of Health and Human Services (HHS). The effects of any adjustments that may be necessary if the State Plan, as submitted, is modified to receive the approval of HCFA cannot presently be determined.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

MCCOY MEMORIAL NURSING CENTER

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-MCY-J7

	<u>10/01/98- 11/30/98</u>	<u>Beginning 12/01/98</u>
Interim reimbursement rate (1)	\$92.75	\$93.50
Adjusted reimbursement rate	<u>86.10</u>	<u>86.85</u>
Decrease in reimbursement rate	\$ <u>6.65</u>	\$ <u>6.65</u>

(1) Interim reimbursement rate obtained from South Carolina Department of Health and Human Services letter dated February 16, 1999

MCCOY MEMORIAL NURSING CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-MCY-J7

	<u>Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$37.10	\$46.64	
Dietary		9.21	9.93	
Laundry/Housekeeping/Maint.		<u>6.90</u>	<u>8.11</u>	
Subtotal	\$ <u>4.53</u>	53.21	64.68	\$53.21
Administration & Med. Rec.	\$ <u>2.80</u>	<u>8.10</u>	<u>10.90</u>	<u>8.10</u>
Subtotal		61.31	<u>\$75.58</u>	61.31
<u>Costs Not Subject to Standards:</u>				
Utilities		1.81		1.81
Special Services		3.36		3.36
Medical Supplies & Oxy.		5.01		5.01
Taxes and Insurance		1.78		1.78
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$73.27</u>		73.27
Inflation Factor (3.60%)				2.64
Cost of Capital				8.19
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.56
Cost Incentive				4.53
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.34)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$86.10</u>

MCCOY MEMORIAL NURSING CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Periods Beginning December 1, 1998
AC# 3-MCY-J7

	<u>Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$37.10	\$46.64	
Dietary		9.21	9.93	
Laundry/Housekeeping/Maintenance		<u>6.90</u>	<u>8.11</u>	
Subtotal	<u>\$4.53</u>	53.21	64.68	\$53.21
Administration & Medical Records	<u>\$2.80</u>	<u>8.10</u>	<u>10.90</u>	<u>8.10</u>
Subtotal		61.31	<u>\$75.58</u>	61.31
<u>Costs Not Subject to Standards:</u>				
Utilities		1.81		1.81
Special Services		3.36		3.36
Medical Supplies & Oxygen		5.01		5.01
Taxes and Insurance		1.78		1.78
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$73.27</u>		73.27
Inflation Factor (3.60%)				2.64
Cost of Capital				8.19
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.56
Cost Incentive				4.53
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.34)
Minimum Wage and CNA Add-Ons				<u>1.00</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$86.85</u>

MCCOY MEMORIAL NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-MCY-J7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,264,565	\$ -	\$ 37,195 (5) 2,267 (5) 33,776 (6) 2,053 (6) 6,250 (7)	\$1,183,024
Dietary	308,218	-	4,676 (5) 4,149 (6) 5,643 (7)	293,750
Laundry	35,249	-	806 (5) 756 (6)	33,687
Housekeeping	127,655	-	3,638 (5) 3,144 (6)	120,873
Maintenance	69,087	-	1,589 (5) 1,226 (6) 684 (7)	65,588
Administration & Medical Records	262,638	1,831 (7)	2,879 (5) 532 (5) 2,341 (6) 428 (6)	258,289
Utilities	71,258	-	11,100 (3) 2,435 (8)	57,723
Special Services	148,316	-	41,133 (10)	107,183
Medical Supplies & Oxygen	194,625	-	17,289 (4) 17,443 (9)	159,893

MCCOY MEMORIAL NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-MCY-J7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes & Insurance	59,607	-	2,863 (7)	56,744
Legal Fees	-	-	-	-
Cost of Capital	261,825	846 (1)	9 (2)	354,107
		<u>91,454 (11)</u>	<u>9 (7)</u>	
Subtotal	2,803,043	94,131	206,313	2,690,861
Ancillary	23,072	-	-	23,072
Non-Allowable	286,895	9 (2)	846 (1)	377,251
		2,892 (3)	91,454 (11)	
		17,289 (4)		
		53,582 (5)		
		47,873 (6)		
		2,435 (8)		
		17,443 (9)		
		<u>41,133 (10)</u>		
Total Operating Expenses	<u>\$3,113,010</u>	<u>\$276,787</u>	<u>\$298,613</u>	<u>\$3,091,184</u>
TOTAL PATIENT DAYS	<u>31,891</u>	<u>-</u>	<u>-</u>	<u>31,891</u>
Cost of Capital Patient Days				<u>43,221</u>
Total BEDS	<u>88</u>			

MCCOY MEMORIAL NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MCY-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 23,390	
	Cost of Capital	846	
	Accumulated Depreciation		\$ 22,603
	Other Equity		787
	Nonallowable		846
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	9	
	Cost of Capital		9
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Retained Earnings	8,208	
	Nonallowable	2,892	
	Utilities		11,100
	To properly charge expense applicable to the prior period and disallow penalties and cable TV expense HIM-15-1, Sections 2103, 2106, 2302.1 and 2304		
4	Nonallowable	17,289	
	Medical Supplies		17,289
	To remove speciality bed expense reimbursed by Medicare State Plan, Attachment 4.19D		

MCCOY MEMORIAL NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MCY-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	53,582	
	Nursing		37,195
	Restorative		2,267
	Dietary		4,676
	Laundry		806
	Housekeeping		3,638
	Maintenance		1,589
	Administration		2,879
	Medical Records		532
	To remove expense applicable to the duplicate posting of payroll HIM-15-1, Section 2304		
6	Nonallowable	47,873	
	Nursing		33,776
	Restorative		2,053
	Dietary		4,149
	Laundry		756
	Housekeeping		3,144
	Maintenance		1,226
	Administration		2,341
	Medical Records		428
	To adjust fringe benefits and related allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Accounts Payable	1,723	
	Administration	1,831	
	Other Income	11,895	
	Nursing		6,250
	Dietary		5,643
	Maintenance		684
	Taxes and Insurance		2,863
	Cost of Capital		9
	To properly offset income against related expenses HIM-15-1, Sections 2102.3 and 2328		

MCCOY MEMORIAL NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MCY-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable Utilities	2,435	2,435
	To disallow expense related to vending HIM-15-1, Sections 2102.3 and 2328		
9	Nonallowable Medical Supplies	17,443	17,443
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Nonallowable Special Services	41,133	41,133
	To adjust co-insurance for Medicare Part B services to allowable State Plan, Attachment 4.19D		
11	Cost of Capital Nonallowable	91,454	91,454
	To adjust capital return to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$322,003</u>	<u>\$322,003</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MCCOY MEMORIAL NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-MCY-J7

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1814</u>	<u>2.1814</u>	
Deemed Asset Value (Per Bed)	34,069	34,069	
Number of Beds	<u>88</u>	<u>32</u>	
Deemed Asset Value	2,998,072	1,090,208	
Improvements Since 1981	6,190	-	
Accumulated Depreciation at 9/30/97	<u>(694,381)</u>	<u>(42,499)</u>	
Deemed Depreciated Value	2,309,881	1,047,709	
Market Rate of Return	<u>0.067</u>	<u>0.067</u>	
Total Annual Return	154,762	70,197	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	154,762	70,197	
Depreciation Expense	85,215	42,499	
Amortization Expense	-	1,443	
Capital Related Income Offsets	(9)	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	239,968	114,139	354,107
Total Patient Days (Minimum 97% Occupancy)	<u>31,891</u>	<u>11,330</u>	<u>43,221</u>
Cost of Capital Per Diem	\$ <u>7.52</u>	\$ <u>10.07</u>	\$ <u>8.19</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

I. Transaction Classification

The Provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines

II. Vending Machine and Meal Sales

Income received from vending machines and meal sales were not deposited in the facility operating account. Funds generated from these sales were retained by the owners and used to make minor purchases for the facility, similar to a petty cash fund.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document the income derived from vending machine and meal sales, and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received be deposited timely and intact.